Verizon New England Inc.
d/b/a Verizon Massachusetts

Commonwealth of Massachusetts

D.T.E. Docket No. 06-61

Respondent: Joseph S. Williams
Title: Specialist Financial Planning & Analysis – Service Costs

REQUEST: CLEC Coalition, Set #4

DATED: September 1, 2005

ITEM: CLEC 4-1

In FCC Docket Nos. 00-218 and 00-251 (Virginia arbitration), Verizon Virginia removed expenses and revenue associated with Operator Services from its avoided cost discount for CLECs who do not use Verizon Virginia's Operator Services. *See* FCC Doc. Nos. 00-218 and 00-251, Panel Testimony on Unbundled Network Element and Interconnection Costs filed July 31, 2001, pp. 340 and 364 as well as Verizon Massachusetts' response to CLEC Coalition 1-16, Attachment VII, tabs 9 and 10. Please explain why a separate denominator consisting of revenue subject to resale net of operator service revenue was not used to calculate the avoided cost discount for CLECs not using Verizon Massachusetts' Operator Services.

REPLY:

A separate denominator was not developed because the numerator was also not adjusted.

In the Virginia arbitration cost study, certain operator service revenue was excluded from the denominator of the discount calculation when resellers do not use Verizon Virginia Operator and Directory Services. *In addition*, the expenses included as avoided in the numerator were only those expenses that exceeded the revenues specific to these services (Operator and Directory Assistance), referred to as the Operator Services Shortfall. *See* the attached FCC Doc. Nos. 00-218 and 00-251, Panel Testimony on Unbundled Network Element and Interconnection Costs filed July 31, 2001, pp. 357-358.

In order to simplify the calculation, total revenues subject to resale are now used in the denominator for resellers who do not use Verizon Massachusetts' Operator and Directory Services; and Verizon does not try to calculate the Operator Shortfall expense offset in the numerator.

REPLY: CLEC 4-1 (Cont'd.)	The *avoided* expense now included in the numerator includes 100 percent of accounts 6220, 6621 and 6622 to coincide with the denominator.

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ITEM: CLEC 4-2 In FCC Docket Nos. 00-218 and 00-251 (Virginia arbitration), Verizon Virginia asserted that certain indirect expenses are considered avoided because they vary with the level of retail output. *See* FCC Doc. Nos. 00-218 and 00-251, Panel Testimony on Unbundled Network Element and Interconnection Costs filed July 31, 2001, p. 341. Verizon Massachusetts' response to CLEC Coalition 1-16, Attachment VII, tab 4, indicates that Verizon Virginia identified expenses in Accounts 6124 (General Purpose Computers), 6711 (Executive) and 6728 (General & Administrative) as avoided. Yet, Verizon Massachusetts' response to CLEC Coalition 1-7 states that no expenses in the indirect cost accounts are avoided when a Verizon retail customer shifts to resale. Please explain why Verizon Massachusetts' methodology in this proceeding is different from the one used by Verizon Virginia in the Virginia arbitration?

REPLY: The July 31, 2001 testimony referred to in this request was filed only a short time after the Eighth Circuit's decision on the avoided cost standard. Then, as now, Verizon's position is that costs to be excluded when calculating the resale discount are those that Verizon will actually avoid when providing services to resellers.

Verizon's determination of retail costs that are actually avoided has evolved since the July, 2001 filing referenced. As an example, Verizon has altered its analysis of the resale implication of USOA 6711 (Executive Expenses). In the Virginia cost study, Verizon included an indirect avoided expense with the assumption that the Retail Markets Executive Vice President would actually be avoided when providing services to resellers. Verizon has since recognized that the Retail Markets Executive expenses were not, and are not actually

REPLY: CLEC 4-2 (Cont'd.)	avoided. Verizon must still maintain its Retail Markets line of business in order to provide retail telephone service, and thus to provide resale of retail service. The TELRIC concept of a 100-percent wholesale company is not valid when determining avoided costs for the resale discount. The Eighth Circuit affirmed that the ILEC will itself remain a retailer of telephone service with its own continuing costs of providing retail telephone service.

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ITEM: CLEC 4-3 Verizon Massachusetts' response to CLEC Coalition 1-10 indicates that it primarily relied upon the U.S.O.A. definition in 47 C.F.R Part 32 for individual accounts to ascertain whether an expense was considered avoided or non-avoided with the exception of Accounts 6533 and 6623 where sub-account analysis was used. Yet, Verizon Virginia stated that such main account level data was not used in its avoided cost study because it is too general to make this determination. *See* FCC Doc. Nos. 00-218 and 00-251, Panel Testimony on Unbundled Network Element and Interconnection Costs filed July 31, 2001, p. 341. Please explain why Verizon Massachusetts now believes it is appropriate to use expense data at the U.S.O.A. main account level instead of at the function code level.

REPLY: Verizon believes it is appropriate to use expense data at the USOA main account level to determine if an expense **account** should be considered avoided or not avoided. When it is determined that the **account** should be further studied (based on its USOA description) to determine avoidance, Verizon reasonably utilizes special studies to further analyze and determine non-avoided or avoided amounts for the account. Job Function Codes are not always appropriate to conduct our special studies as they have changed over time due to new financial system upgrades, merging with GTE companies (whose systems have no similar code), streamlining of the expense reporting process, and regionalization of many functions and centers into national operations. Therefore, other source data were relied upon.

While additional analysis was conducted using job function codes for Verizon Virginia (using year 2000 data), Verizon's current methodology does not. Nonetheless, Verizon does not rely only on the

REPLY: CLEC 4-3 (Cont'd.)

USOA main account to determine ***avoided costs***. Verizon currently uses other methods:

- Verizon considers sub-account level detail when determining the avoided percent of USOA 6533, Testing/Trouble Reporting Processing Expense
- Verizon analyzes Human Resources job codes when determining the avoided percent in USOA 6611, Product/Market Management Expense
- Verizon considers expenses at the line of business level when determining the avoided percent of USOA 6612, Sales Expense
- When determining the avoided percent of USOA 6623, Customer Services Verizon first uses a special study to separate 6623 into Billing Operations and Customer Services. Verizon analyzes Billing Operations using a DEM Minutes of Use study and Customer Services by considering sub-account detail.

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ITEM: CLEC 4-4 Does Verizon Massachusetts use function codes to categorize expenses within each individual expense account? If Verizon does, please provide all 2005 expenses at the function code level similar to tab 6 within Verizon Massachusetts' response to CLEC Coalition 1-16, Attachment VII.

REPLY: No. Job Function Code detail is not used to categorize expenses as avoided versus non-avoided as discussed in the Reply to CLEC 4-3.

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ITEM: CLEC 4-5 In FCC Docket Nos. 00-218 and 99-251 (Virginia arbitration), Verizon Virginia treated all expenses in Account 6612 (Sales) as avoided because they reflected costs incurred performing functions related to selling products and services directly to retail customers. *See* Panel Testimony on Unbundled Network Element and Interconnection Costs filed July 31, 2001, p. 346. Please explain what changes, if any, have occurred with the accounting methodology used by the Verizon operating companies for expenses recorded in Account 6612 since the filing of the Verizon Virginia avoided cost study in FCC Docket Nos. 00-218 and 00-251.

REPLY: It is likely that in 2001, the amount of Wholesale Sales Expense was insignificant. Thus, taking a very conservative approach for the purposes of the Virginia study, Bell Atlantic deemed the account wholly avoided, due to a lack of resources and source data to perform a special study.

Due to increased competition, Verizon's Wholesale Line of Business has grown when compared to Verizon's Total Domestic Telephone Operations. Consequently, it is no longer necessary from a resource and efficiency perspective for Verizon to treat the account 100% avoided, as Verizon has secured the requisite underlying data relevant to this point. Hence, the expenses were accumulated by Line of Business on WP 6, Exhibit 1 of the study to reflect only the retail sales related expenses that would be avoided.